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Ms. Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

RE: Comments on Advance Notice of Proposed Rulemaking related to Part 715
ANPR Supervisory Committee Audits

The information below are the responses to the questions raised on the Advance Notice of Proposed Rulemaking.

Issues for Comment

A. Internal Control Assessment and Attestation.

Response to Question 1

The reference in the Advance Notice of Proposed Rulemaking to the Sarbanes-Oxley Act, which requires "*all public companies*" to obtain an "attestation on internal controls" over financial reporting, has absolutely no relevance to federal or state-chartered credit unions for a number of reasons, not to mention the obvious fact that they are not public companies. The Sarbanes-Oxley Act was a political reaction to the failures of several large companies who fraudulently misstated their financial statements resulting in shareholder losses which would have occurred sooner had the fraud not occurred.

Internal controls in large credit unions (assets in excess of \$500 million) are reviewed annually by the credit union's external auditor who must perform an assessment of internal controls in the planning phase of an audit. Additionally, a credit union has the additional oversight of the National Credit Union Administration examiners. Any requirement to expand the scope of an external audit to include an "attestation of internal controls" will significantly increase audit cost without providing any added benefit. Furthermore, there would also be additional cost in developing management assertions related to internal controls, if the credit union does not have expertise internally to document those assertions.

The risk associated with financial statement misstatement is lower with credit unions considering there is generally no undue pressure to misstate financial information to sustain stock value for shareholder, or income tax issues, since there are no shareholders and typically no income tax to pay.

Finally, there is no rational reason to lump the credit union industry in with public and non-public banks as it relates to the Act. The overriding issue appears to be that the other supervising agencies are doing this so it must be something that the National Credit Union Administration should require. That, in and of itself, should not be a consideration.

Response to Question 2

There has been no publicized recent failure of a large institution; therefore, the implementation of this requirement seems more a political feel good issue rather than one of substance. However, should such a requirement be instituted, a large threshold of \$5 billion would allow the industry to test the effectiveness of such a requirement. Larger credit unions should have the ability to absorb the additional cost associated with this process and once implemented, should it prove effective and helpful, the threshold could be modified at that time.

Response to Question 3

Corporate Credit Union's and natural person credit union's should be on equal footing. As I recall, the last large credit union to be liquidated was a corporate credit union.

Response to Question 4

Requirements should include all types of financial reporting which would include the annual audit and regulatory reporting.

Response to Question 5

The same auditor should be allowed to perform both the financial statement audit and the "attestation on internal controls" over financial reporting. Additionally, external auditors must assess the effectiveness of controls in planning their audit; therefore, it would be effective to allow the same auditor to perform both services. This fact that the same auditor may perform both services is set forth in AT 501, Reporting on an Entities Internal Control over Financial Reporting.

Response to Question 6

It should be done annually. The rationale for an annual attestation is to ensure that management's control assertions are in place as of that point in time.

Response to Question 7

If such a requirement is instituted, the effective date of such a provision should allow sufficient time for a credit union to document management assertions. Providing an effective date for the fiscal period beginning on January 1, 2007, should allow sufficient time to respond adequately to new requirements.

B. Standards Governing Internal Control Assessments and Attestations

Response to Question 8

This is a complicated question; however, my preference would be that the AICPA's revised AT 501, Reporting on an Entities Internal Control over Financial Reporting be applicable to such engagements. The mere application of PCAOB's standard to non-public companies would seem to suggest that all PCAOB's requirements should apply to all credit unions over the selected dollar threshold. While there are other reasons, the appearance that certain institutions may fall under the oversight of the PCAOB should be a determining factor in requiring certain credit union's to use the AICPA standard.

Response to Question 9

Credit unions should be allowed to choose its own standard within the framework of existing literature.

C. Qualifications of Supervisory Committee Members

Response to Question 10

While it would be advisable to require credit unions to have Supervisory Committee members with experience with financial institutions, it is not practical given the fact that unlike a bank's board or audit committee members, Supervisory Committee members cannot be compensated. This in itself eliminates a large number of highly competent potential volunteers. However, the requirement to obtain education through seminars and conferences helps to enhance a Committee member's knowledge and participation in credit union related topics and issues.

Response to Question 11

I have no opinion on this question.

Response to Question 12 & 13

Given the overview of a Board of Directors and management, it is unlikely a Supervisory Committee members' relationship with a credit union member could have any significant adverse effect on the credit union.

Credit unions do have difficulty in recruiting and retaining Supervisory Committee members due to the uncompensated and burdensome fiduciary responsibility they have when they accept the position.

D. Independence of State-Licensed, Compensated Auditors

Response to Question 14

Requirements to AICPA's standards are sufficient as it relates to credit unions which are not-for-profit entities. The SEC's requirements are more applicable to for-profit, stock corporations and are relevant to those types of entities.

E. Audit Opinions, Reports and Engagements

Response to Question 15

A balance sheet audit may provide some level of assurance to regulatory agencies, Boards of Directors and Supervisory Committee members, but it is not a substitute for an audit of an entity's financial statements. If it is to be retained, the asset threshold for which it would continue to be an option should be reduced \$10 million or less.

Response to Question 16

The Supervisory Committee audit guide could be applied to small credit unions (under \$10 million) but is of little use in complex operations which are becoming more prevalent in even small credit unions.

Response to Question 17, 18, 19, and 20

If a Credit Union obtains an audit of its financial statements there should be a requirement to forward a copy of all communications from the CPA to NCUA within four months of the audit date with a waiver available due to unusual circumstances. Furthermore, general practice should require the CPA to review the report and any findings with the Supervisory Committee and the Board of Directors at the conclusion of the audit; therefore, they would be reviewed by the Committee prior to them being forwarded to NCUA.

Response to Question 21

It would be advisable to have the credit union notify the NCUA of an auditor's dismissal or resignation since it may have some bearing on other credit unions the auditor may perform services for. The mere change in auditors should not be a reportable issue.

Response to Question 22

A Credit Union should not enter into an engagement with a CPA that requires the engagement letter to include liability limits.